

EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2008

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Ludwig	Board Member	Dec. 31, 2007
Paul Saxton	Board Member	Dec. 31, 2009
Dan Cooper	Board Member	Dec. 31, 2010
John Wright	Board Member	Dec. 31, 2011
Nick Steinkamp	Board Member	Dec. 31, 2012
Kris Ausborn	Board Member - <i>Resigned May 28, 2008</i>	Dec. 31, 2013
Rick Brennan	Board Member	Dec. 31, 2013
John Bird	City Administrator/Superintendent	
Kathy Gunderson	Administrative Assistant - <i>Until May 9, 2008</i>	
John D. Brown	Attorney	

Burdorf, Parrott And Associates, P.C.
Certified Public Accountants

Edwin J. Burdorf, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2008, and the related combining statement of revenues, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. The effect on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2008 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2009, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 19, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 20 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bardorf, Parrott And Associates, P.C.

March 20, 2009

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2008. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets increased \$ 377,928 as a result of this year's operations. This represents a 2.5 % increase.
- The Utilities' return on total ending assets was nearly 2.4 %.
- The Utilities' total revenues were \$4,520,228 in 2008 compared to \$3,988,109 in 2007.
- During the year ended June 30, 2008, the Utilities had total expenses, excluding depreciation, of \$3,621,228 compared to \$3,213,419 for the year ended June 30, 2007.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 10 and 11) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The Funds maintained by the Utilities as a Whole

For the years ended June 30, 2008 and 2007, net assets changed as follows:

Summary of Operations and Changes in Net Assets

	2008	2007
Net operating revenues	\$ 4,413,380	3,868,928
Net operating expenses	<u>3,933,876</u>	<u>3,493,198</u>
Net operating income	479,504	375,730
Non-operating revenue (expenses)	(15,368)	(6,471)
Transfers to primary government	<u>(86,213)</u>	<u>(90,804)</u>
Net increase in net assets	<u>\$ 377,923</u>	<u>278,455</u>

Net Assets

	2008	2007
Assets:		
Current and other assets	\$ 5,329,024	4,757,349
Capital assets	<u>10,144,717</u>	<u>10,506,518</u>
Total assets	<u>\$ 15,473,741</u>	<u>15,263,867</u>
Liabilities:		
Current liabilities	\$ 482,218	483,277
Non-current liabilities	<u>3,281,000</u>	<u>3,448,000</u>
Total liabilities	3,763,218	3,931,277
Net assets:		
Invested in capital assets (net of debt)	6,699,717	6,901,518
Unreserved	<u>5,010,806</u>	<u>4,431,072</u>
Total liabilities and net assets	<u>\$ 15,473,741</u>	<u>15,263,867</u>

	Revenues	
	2008	2007
Operating:		
Residential	\$ 1,977,538	1,622,389
Commercial	1,498,607	1,386,404
Public authority	340,734	270,091
Customer fees	499,260	490,728
Interfund services provided	49,943	46,268
Penalties	5,850	8,041
Other	41,448	45,007
Total operating	4,413,380	3,868,928
Non-operating revenues:		
Interest income	106,848	82,300
Grant proceeds	-	36,881
Total non-operating revenues	106,848	119,181
Total revenues	\$ 4,520,228	3,988,109

For the funds maintained by the Utilities, total revenues for June 30, 2008 increased by \$532,121 from total revenues for the year ended June 30, 2007. The increase in revenue was primarily due to an increase in natural gas billings.

	Expenses	
	2008	2007
Operating:		
Personal services	\$ 374,259	360,454
Contractual	373,237	270,274
Materials, supplies and maintenance	2,616,787	2,317,302
Utilities	97,847	63,595
Depreciation	434,864	405,431
Uncollected accounts	11,618	12,716
Interfund services used	25,263	62,426
Other	-	1,000
Total operating	3,933,876	3,493,198
Non-operating expenses:		
Interest expense	122,216	125,652
Total expense	\$ 4,056,092	3,618,850

The total expenses increased by \$437,239 from the prior year, due primarily to a \$287,073 increase in the cost of natural gas purchased.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	-	-	333,319
Distribution system	1,154,092	-	-	1,154,092
Equipment, meters & mains	807,342	6,579	-	813,921
Total asset costs	2,283,069	6,579	-	2,302,371
Less accumulated depreciation	(1,490,782)	(52,693)	-	(1,543,475)
Gas Department assets, net	<u>\$ 805,010</u>	<u>(46,114)</u>	<u>-</u>	<u>758,896</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	3,942,440	-	-	3,942,440
Distribution system	1,908,888	18,283	-	1,927,171
Equipment, meters & mains	995,599	12,107	-	1,007,706
Total asset costs	6,913,994	30,390	-	6,944,384
Less accumulated depreciation	(1,794,958)	(207,073)	-	(2,002,030)
Water Department assets, net	<u>\$ 5,119,036</u>	<u>(176,683)</u>	<u>-</u>	<u>4,942,354</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	-	-	4,348,889
Distribution system	1,430,372	20,315	-	1,450,687
Equipment, meters & mains	1,643,659	15,778	-	1,659,437
Total asset costs	7,507,462	36,093	-	7,543,555
Less accumulated depreciation	(2,924,990)	(175,099)	-	(3,100,088)
Sanitation Department assets, net	<u>\$ 4,582,472</u>	<u>(139,006)</u>	<u>-</u>	<u>4,443,467</u>

Continued on the next page

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	-	-	333,319
Distribution system	1,154,092	-	-	1,154,092
Equipment, meters & mains	794,619	12,723	-	807,342
Total asset costs	2,283,069	12,723	-	2,295,792
Less accumulated depreciation	(1,434,722)	(56,060)	-	(1,490,782)
Gas Department assets, net	<u>\$ 848,347</u>	<u>(43,337)</u>	<u>-</u>	<u>805,010</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	517,471	3,424,969	-	3,942,440
Distribution system	1,889,404	19,484	-	1,908,888
Equipment, meters & mains	987,019	8,580	-	995,599
Construction in progress	3,205,371	-	(3,205,371)	-
Total asset costs	6,666,332	3,453,033	(3,205,371)	6,913,994
Less accumulated depreciation	(1,610,685)	(184,273)	-	(1,794,958)
Water Department assets, net	<u>\$ 5,055,647</u>	<u>3,268,760</u>	<u>(3,205,371)</u>	<u>5,119,036</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	-	-	4,348,889
Distribution system	1,411,983	18,389	-	1,430,372
Equipment, meters & mains	542,432	1,101,227	-	1,643,659
Construction in progress	1,007,484	-	(1,007,484)	-
Total asset costs	7,395,330	1,119,616	(1,007,484)	7,507,462
Less accumulated depreciation	(2,759,892)	(165,098)	-	(2,924,990)
Sanitation Department assets, net	<u>\$ 4,635,438</u>	<u>954,518</u>	<u>(1,007,484)</u>	<u>4,582,472</u>

Depreciation expense for each department is found on page 11.

Debt

Debt decreased during the year ended June 30, 2008 by \$160,000. There was no new debt issued for the year ended June 30, 2008. The Water fund reduced its debt by \$105,000 and the Sanitation fund reduced its debt by \$55,000.

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2008 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The Utilities' fiscal 2009 budget has decreased over fiscal 2008, due to the uncertainty of the natural gas market.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

	Gas Fund	Water Fund	Sanitation Fund	Total
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 78,350	32,848	35,015	146,213
Other liabilities payable	6,721	-	-	6,721
Current portion of long-term debt	-	109,000	55,000	164,000
Accrued vacation pay	2,188	3,995	2,278	8,461
Accrued interest payable	-	6,346	2,431	8,777
Interfund payable	3,108	47,764	8,566	59,438
Customer deposits	58,713	12,070	-	70,783
Due to Primary Government	5,347	6,498	5,980	17,825
Total current liabilities	154,427	218,521	109,270	482,218
 Long-term debt (net of current portion above)	 -	 2,434,000	 847,000	 3,281,000
Total liabilities	154,427	2,652,521	956,270	3,763,218
 Net Assets:				
Investment in capital assets (net of related debt)	758,896	2,399,354	3,541,467	6,699,717
Unrestricted	2,904,634	1,358,609	747,563	5,010,806
Total net assets	3,663,530	3,757,963	4,289,030	11,710,523

Total liabilities and net assets	\$ 3,817,957	6,410,484	5,245,300	15,473,741
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See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Business-Type Activities
Year Ended June 30, 2008

	Gas Fund	Water Fund	Sanitation Fund	Total
Operating revenues:	\$			
Residential sales	1,483,471	257,653	236,414	1,977,538
Commercial sales	1,162,373	178,041	158,193	1,498,607
Public authority sales	292,364	30,124	18,246	340,734
Customer fees	138,600	171,660	189,000	499,260
Interfund services provided	48,257	1,687	-	49,943
Penalties	5,850	-	-	5,850
Other	23,743	13,853	3,852	41,448
Total operating revenues	3,154,658	653,018	605,704	4,413,380
Operating expenses:				
Personal services	126,093	128,218	119,948	374,259
Contractual	74,171	89,055	210,011	373,237
Materials, supplies and maintenance	2,490,290	67,946	58,551	2,616,787
Utilities	5,729	35,838	56,280	97,847
Depreciation	52,692	207,073	175,099	434,864
Uncollectible accounts	11,618	-	-	11,618
Interfund services used	8,421	8,421	8,421	25,263
Total operating expenses	2,769,015	536,551	628,310	3,933,876
Operating income (loss)	385,643	116,467	(22,606)	479,504
Non-operating revenues and (expenses):				
Interest income	49,303	37,987	19,558	106,848
Interest expense	(1,758)	(87,499)	(32,959)	(122,216)
Total non-operating revenues (expenses)	47,545	(49,512)	(13,401)	(15,368)
Income (loss) before transfers	433,188	66,955	(36,007)	464,136
Transfers to Primary Government	(74,213)	(6,000)	(6,000)	(86,213)
Change in net assets	358,975	60,955	(42,007)	377,923
Net assets at beginning of year	3,304,555	3,697,008	4,331,037	11,332,600
Net assets at end of year	\$ 3,663,530	3,757,963	4,289,030	11,710,523

See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2008

	Gas Fund	Water Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 3,096,346	572,495	564,558	4,233,399
Cash payments to suppliers for goods and services	(2,555,293)	(174,708)	(212,151)	(2,942,152)
Cash payments to employees for services	(127,405)	(128,640)	(209,375)	(465,420)
Cash received for interfund services provided	48,257	1,687		49,944
Cash paid for interfund services used	(8,421)	(8,421)	(8,421)	(25,263)
Other income	23,743	13,852	3,852	41,447
Net cash provided by operating activities	477,227	276,265	138,463	891,955
Cash flows from noncapital financing activities:				
Cash from or to Primary Government funds	(32,826)	(1,866)	(2,480)	(37,172)
Cash from or for interfund transactions	43,595	(46,854)	3,259	-
Collection of loan receivable - Primary Government	722	842	842	2,406
Transfers from or to Primary Government funds	(74,213)	(6,000)	(6,000)	(86,213)
Net cash provided (used) by noncapital financing activities	(62,722)	(53,878)	(4,379)	(120,979)
Cash flows from capital and related financing activities:				
Loan payments	-	(105,000)	(55,000)	(160,000)
Interest paid	(1,758)	(85,896)	(32,723)	(120,377)
Acquisition and construction of capital assets	(6,579)	(30,390)	(36,093)	(73,062)
Net cash provided (used) for capital and related financing activities	(8,337)	(221,286)	(123,816)	(353,439)
Cash flows from investing activities:				
Interest on cash investments and notes receivable	49,899	39,328	20,323	109,550
Cash received from cashing certificates of deposit	250,000	170,000	50,000	470,000
Collection of notes receivable from others	43,607	-	-	43,607
Net cash provided (used) by investing activities	343,506	209,328	70,323	623,157
Net increase (decrease) in cash and cash equivalents	749,674	210,429	80,591	1,040,694
Cash and cash equivalents, beginning of year	1,639,202	800,641	484,539	2,924,382
Cash and cash equivalents, end of year	\$ 2,388,876	1,011,070	565,130	3,965,076
Reconciliation:				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 2,330,163	999,000	565,130	3,894,293
Restricted	58,713	12,070	-	70,783
	\$ 2,388,876	1,011,070	565,130	3,965,076

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows - Continued
Business-Type Activities
Year Ended June 30, 2008

	Gas Fund	Water Fund	Sanitation Fund	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 385,643	116,467	(22,606)	479,504
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	52,692	207,073	175,099	434,864
(Increase) decrease in operating assets:				
Accounts and other receivables	9,386	(73,484)	(35,550)	(99,648)
Accrued billing	7,273	7,704	(1,744)	13,233
Prepaid expenses	(1,109)	899	(713)	(923)
Increase (decrease) in operating liabilities				
Accounts payable	21,571	17,228	23,341	62,140
Other liabilities	(5,564)	-	-	(5,564)
Accrued vacation pay	(1,313)	(422)	636	(1,099)
Customer deposits	8,648	800	-	9,448
Net cash provided by operating activities	<u>\$ 477,227</u>	<u>276,265</u>	<u>138,463</u>	<u>891,955</u>

See notes to the financial statements.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utilities' funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2008 was \$4,654,825 and the bank balance was \$4,705,916. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2008. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities' reported net assets are segregated into Investment in capital assets (net of related debt) and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

E. Designated funds

Designated funds include cash and certificates of deposits set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$19,174, \$17,781, and \$17,356, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Note Receivable

On June 6, 2002, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$50,000, bearing interest at five percent. The Utilities advanced the company \$26,302 as of June 30, 2002 and the remainder as of June 30, 2003. The balance at June 30, 2007 was \$43,607. The balance due was paid October 15, 2007.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents and certificates of deposits, at June 30, 2008 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 978,754	770,329	358,862
Medical Reimbursement	39,733	4,138	4,317
Industrial Development	<u>300,870</u>	<u>291,482</u>	<u>46,101</u>
	<u>\$ 1,319,357</u>	<u>1,065,949</u>	<u>409,280</u>

5. Restricted Assets – Cash and Cash Equivalents

Restricted assets are comprised of cash in bank and certificates of deposit that can be used only to repay customer deposits.

6. Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance			Balance
	7/1/07	Additions	Deletions	6/30/08
Land	\$ 152,648	-	-	152,648
Structures & plant	8,624,648	-	-	8,624,648
Distribution system	4,493,352	38,598	-	4,531,950
Equipment, meters & mains	3,446,600	34,463	-	3,481,063
Total	\$ 16,717,248	73,061	-	16,790,309

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$50,000, interest free, Interim Loan and Disbursement Agreement with the Iowa Finance Authority due April 12, 2010. At June 30, 2008, the loan balance totaled \$50,000.

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$102,000) to June 1, 2026, and interest at 3.00%. At June 30, 2008, the loan balance totaled \$2,543,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of \$20,000 – 35,000 (currently \$25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2008, the loan balance totaled \$530,000.

\$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.92%. At June 30, 2008, the loan balance totaled \$112,000.

\$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 4.23%. At June 30, 2008, the loan balance totaled \$210,000.

Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 164,000	105,463	269,463
2010	217,000	100,205	317,205
2011	170,000	94,857	264,857
2012	174,000	89,419	263,419
2013	177,000	81,600	258,600
2014-2025	2,543,000	529,552	3,072,552
	<u>\$ 3,445,000</u>	<u>1,001,096</u>	<u>4,446,096</u>

8. Employee Benefits - Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$1,500 deductible per individual and a \$3,000 per family co-insurance clause. The Utilities then self-insures \$1,250 of the \$1,500 deductible.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2008, the Component Unit billed \$328,834 in fees for the Primary Government.

11. Guaranteed loans

The Utilities has guaranteed 50% of a liability for the purchase of 58 acres of land by the Emmetsburg Community Development Corporation. The guarantee is for 50% of the \$685,000 direct and indirect loan from USDA and Iowa Trust and Savings Bank along with 50% of the interest on those loans.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2008

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Operating revenues	\$ 4,413,382	5,042,371	5,042,371	(628,989)
Operating expenses	3,933,872	4,508,902	4,508,902	575,030
Operating income	479,510	533,469	533,469	(53,959)
Non-operating revenues and (expenses)	(15,368)	40,000	40,000	(55,368)
Transfers to Primary Government	(86,213)	(71,213)	(71,213)	(15,000)
Net assets at beginning of year	11,332,590	11,332,590	11,332,590	
Net assets at end of year	\$ 11,710,519	11,834,846	11,834,846	

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

See Independent Auditors' Report.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2008

	Gas Fund	Water Fund	Sanitation Fund	Total
Personal services:				
Trustee fees	\$ 1,488	1,488	1,488	4,464
Administrative salaries	11,756	11,756	12,092	35,604
Office salaries	12,955	12,955	12,955	38,865
Plant labor	76,152	77,062	70,434	223,648
Extra labor	4,717	4,707	4,961	14,385
Overtime	4,169	5,078	4,000	13,247
IPERS	6,524	6,580	6,070	19,174
Payroll taxes	8,332	8,592	7,948	24,872
Total personal services	126,093	128,218	119,948	374,259
Contractual:				
Advertising	3,140	2,760	2,671	8,571
Professional	4,593	24,351	132,771	161,715
Insurance	7,639	20,971	16,615	45,225
Health insurance and risk fund	26,267	34,631	31,078	91,976
Analytical testing and contract	-	1,013	21,806	22,819
Defense group expense	2,328	-	-	2,328
Regulatory commission	7,562	2,380	2,109	12,051
Conference and education	4,407	2,296	2,656	9,359
Regulation and compliance	7,158	653	305	8,116
Energy efficiency plan	8,966	-	-	8,966
Collection expense	2,111	-	-	2,111
Total contractual	74,171	89,055	210,011	373,237
Materials, supplies and maintenance:				
Cost of natural gas purchased	2,438,312	-	-	2,438,312
Maintenance supplies	5,057	2,754	6,562	14,373
Automotive supplies and expense	5,986	5,275	5,175	16,436
Other equipment supplies and expense	473	1,352	7,984	9,809
Computer maintenance and supplies	6,041	6,079	6,068	18,188
Chemicals	-	16,549	46	16,595
Maintenance and materials - mains	16,104	9,934	-	26,038
Treatment plant maintenance	-	4,775	-	4,775
Water well maintenance	-	1,742	-	1,742
Collection system maintenance	-	-	4,228	4,228
Lift station maintenance	-	-	11,031	11,031
Office supplies	8,619	8,941	8,896	26,456
Uniforms	928	1,129	720	2,777
Maintenance buildings and grounds	572	8,481	5,201	14,254
Miscellaneous	8,198	935	2,640	11,773
Total materials, supplies and maintenance	2,490,290	67,946	58,551	2,616,787

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses - Continued
Year Ended June 30, 2008

	Gas Fund	Water Fund	Sanitation Fund	Total
Utilities:				
Lift station power	\$ -	-	4,431	4,431
Telephone	1,852	2,712	2,155	6,719
Electric and Gas	3,877	33,126	49,694	86,697
Total utilities	<u>5,729</u>	<u>35,838</u>	<u>56,280</u>	<u>97,847</u>
Depreciation	<u>52,692</u>	<u>207,073</u>	<u>175,099</u>	<u>434,864</u>
Uncollectible accounts	<u>11,618</u>	<u>-</u>	<u>-</u>	<u>11,618</u>
Interfund services used:				
Administrative fees - Primary Government	<u>8,421</u>	<u>8,421</u>	<u>8,421</u>	<u>25,263</u>
Total interfund services used	<u>8,421</u>	<u>8,421</u>	<u>8,421</u>	<u>25,263</u>
Total operating expenses	<u>\$ 2,769,015</u>	<u>536,551</u>	<u>628,310</u>	<u>3,933,876</u>

See notes to the financial statements.

Burdorf, Parrott And Associates, P.C.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 20, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the reportable condition described in item I-B-08, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parrott And Associates, P.C.

March 20, 2009

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-08 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities' component financial statements. We noted that one individual at the Utilities' office has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, the Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the Board of Trustees along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

I-B-08 Financial Reporting - A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2008, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not performed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

Recommendation - Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – We will revise our education policy so that the individuals charged with the accounting function will be able to attend continuing education related to understanding and recording complex transactions. In addition the individual who was performing the accounting duties has resigned and replaced with an replaced individual with more accounting knowledge.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-08 Certified Budget - Expenditures during the year ended June 30, 2008 did not exceed the budget for the year.
- II-C-08 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-08 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-08 Business Transactions - Business transactions between the Utilities and Utilities' officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Description of Transaction</u>	<u>Amount</u>
Paul Saxton, Trustee Saxton's Greenhouse	Purchase of plants, flowers, and mulch	\$114
Nick Steinkamp, Trustee K & W Electric, Inc.	Repairs	\$2,847
Dan Cooper, Trustee Dan Cooper Builders, Inc.	Water plant improvements	\$18,283

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Saxton's Greenhouse do not appear to represent a conflict of interest because it is not more than \$1,500. K & W Electric, Inc. does appear to represent a conflict of interest since it is more than \$1,500 and it was not bid. Dan Cooper Builders, Inc. does not appear to represent a conflict of interest because the improvements were awarded based on bids.

- II-F-08 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-08 Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

II-H-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

II-I-08 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.